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RUEHBR/AMEMBASSY BRASILIA 5975  
RUEHBU/AMEMBASSY BUENOS AIRES 1661  
RUEHLP/AMEMBASSY LA PAZ 2570  
RUEHPE/AMEMBASSY LIMA 0844  
RUEHSP/AMEMBASSY PORT OF SPAIN 3472  
RUEHQT/AMEMBASSY QUITO 2661  
RUEHSG/AMEMBASSY SANTIAGO 3987  
RUEHDG/AMEMBASSY SANTO DOMINGO 0496  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
RUCNDT/USMISSION USUN NEW YORK 0908  
RUCPDO/DEPT OF COMMERCE  
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001664

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ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR JCARDENAS AND JSHRIER

E.O. 12958: DECL: 01/12/2017  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)  
SUBJECT: SERVICE COMPANIES DISCUSS CURRENT OPERATING  
ENVIRONMENT

REF: A. CARACAS 988  
[1](#)B. CARACAS 666

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: Service companies report an increase in the number of signed contracts with PDVSA. The increase is despite the fact that service company bids frequently include substantial premiums. However, PDVSA's ability to implement new projects appears to be quite limited. At this point, PDVSA does not appear to be interested in integrated project management. END SUMMARY

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MORE CONTRACTS  
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[1](#)2. (C) Petroleum Attache (Petatt) met with Baker Hughes Latin America Sales Vice President Edgar Pelaez (strictly protect throughout) on August 8 and Schlumberger Venezuela President Hatem Soliman (strictly protect throughout) on August 20 to discuss the general operating environment in Venezuela. Both Pelaez and Soliman agreed that service companies have seen a marked increase in PDVSA contracts recently. However, neither of them was sure that this was evidence that PDVSA's procurement system was improving. Pelaez noted that late summer is the traditional time for the assignment of contracts. Wood Group South America Vice President Neil Harvie (strictly protect throughout) told Petatt on August 16 that he did not believe the increase in contracts stemmed from an improvement in procurement procedures. He added he does not believe international oil companies were interested in investing significant sums in Venezuela in the near future due to concerns over the sanctity of contract.

[1](#)3. (C) Pelaez stated Baker Hughes recently participated in two bid rounds for four service packages. PDVSA split the resulting contracts among the bidders with a weighted average

in favor of the winner. (NOTE: As reported in Reftel A, PDVSA has begun splitting contracts when it recently reformed its bidding policies. END NOTE). Pelaez stated he was surprised that Baker Hughes was the winner in the first bid round. He stated his company had placed a substantial premium in its bid but still won the majority of the contracts. Schlumberger, Halliburton, and Weatherford also received portions of the contracts. Pelaez noted Baker Hughes was as conservative a company as Schlumberger and Halliburton, if not more so. He half-jokingly stated he was afraid they knew something that Baker Hughes did not.

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INTEGRATED PROJECT MANAGEMENT  
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14. (C) As PDVSA has publicly admitted, it is facing a severe shortage of qualified personnel. In addition, service company executives have long complained of PDVSA's byzantine procurement system. One possible solution for both problems is integrated project management. Under an integrated project management system, a service company would take over the entire well drilling project and present PDVSA with "turnkey" wells. Pemex has used the system for a number of years and at least one service company has tried to convince PDVSA of its merits (Reftel B).

15. (C) When questioned about PDVSA's willingness to adopt integrated project management, Pelaez noted that it would be logical since the system would require service companies to do basically everything, including supplying the rigs. If PDVSA adopted the system, it would be able to better spread the risk of operations since the service company would absorb

CARACAS 00001664 002 OF 003

the consequences of a dry hole or increased operational difficulties. In addition, service companies would have an easier time securing drilling rigs. Finally, PDVSA would only have to produce one contract rather than multiple contracts for the same field.

16. (C) Despite the obvious advantages for PDVSA, Pelaez stated he has seen no evidence that PDVSA is interested in moving toward an integrated project system. When Petatt raised the issue with Soliman, he also stated he had seen no evidence of such a move. He added that PDVSA has asked Schlumberger to break up the one integrated project management contract that it has in Venezuela.

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TRAINING  
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17. (C) Soliman stated PDVSA has utilized Schlumberger's Venezuela Learning Center in order to train its personnel. The training center's advanced courses are supported by the NEXT system, a partnership between Schlumberger, Heriot-Watt University, Texas A&M, and the University of Oklahoma. Despite PDVSA's constant refrain that it is seeking training opportunities for its staff, Soliman admitted that the learning center is not being utilized to its full extent. In order to take full advantage of the facilities, Schlumberger has started a series of defensive driving and heavy transport driving courses. Soliman also noted that Schlumberger opened a heavy oil research and development center in the Faja last year.

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EQUIPMENT  
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18. (C) When Petatt mentioned in passing that PDVSA has complained that it is unable to secure drilling rigs, Soliman stated that PDVSA does not always utilize the equipment that it has on hand. He stated Schlumberger brought a large amount of equipment to Venezuela in order to gear up for Siembra Petrolera, PDVSA's ambitious investment program. Soliman stated the majority of the equipment is still sitting in a yard in eastern Venezuela. He said other Schlumberger

divisions are pressuring him to send them the equipment due to the general shortage of equipment worldwide. As an example, Soliman stated Schlumberger brought in three machines for coiled tubing but two of them are still sitting in the yard. (NOTE: Coiled tubing is a well-intervention method designed to increase production from older, marginal fields. END NOTE).

¶9. (C) Soliman stated Schlumberger has nine rigs operating in Venezuela, out of a total of 11 rigs in Latin America. Although Schlumberger sold almost all of its rigs to Transocean several years ago, it retained rigs in certain key markets. Soliman stated Schlumberger had to send a letter to PDVSA explaining that it did not participate in a recent bid round for drilling rigs due to the fact that it did not have any.

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RUMORS  
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¶10. (C) The hydrocarbon community in Venezuela was abuzz for weeks with rumors that Schlumberger had received a major upstream contract in the Faja. The rumor began with a brief media report and quickly spread. Soliman stated the rumor began when PDVSA approached Schlumberger to see if it would continue operating in the Corocoro field in the Paria Gulf despite the fact that ConocoPhillips had withdrawn from Venezuela. Schlumberger agreed to abide by the contract but

CARACAS 00001664 003 OF 003

somehow the news morphed into a rumor involving an upstream contract in the Faja. Soliman stated Schlumberger would be more than willing to discuss any rumors that the Post heard regarding its operations in Venezuela.

FRENCH